



*Massachusetts Workers Compensation
Assigned Risk Pool*

March 21, 2023

**MASSACHUSETTS WORKERS' COMPENSATION
ASSIGNED RISK POOL**

SPECIAL BULLETIN NO. 03-23

**POLICY YEAR 2020 FINAL
VDAC REAPPORTIONMENT**

In accordance with the Massachusetts Workers' Compensation Voluntary Direct Assignment ("VDAC") Program, the WCRIBMA is implementing the Final Reapportionment for policy year 2020. The WCRIBMA has elected not to perform the Optional Intermediate Reapportionment for policy year 2021.

BACKGROUND

Every insurer authorized to write Massachusetts workers' compensation insurance is required to be a member of the Assigned Risk Pool. As such, each insurer is obligated to share equitably in the state's workers' compensation residual market. An insurer may satisfy this obligation either by sharing in the pooled results of residual market policies written by servicing carriers or by accepting direct assignment of policies from the residual market. Insurers taking this second option are denoted Voluntary Direct Assignment Carriers (VDACs). Each VDAC keeps the premium from the risks it is assigned and pays the expenses and losses associated with those risks.

The assessment obligations of Massachusetts workers' compensation insurers, including the VDACs, are determined by the insurers' calendar year voluntary assessable premium. Ideally, VDACs would be assigned premium for the current policy year in exact proportion to their current calendar year voluntary assessable premium. In actuality, premiums for the current calendar year are not known at the time the current policy year's assignments are made to the VDACs. As a result, VDAC carriers may be over or under assigned relative to what they should have received based on their calendar year voluntary assessable premium. To correct for this over or under assignment of premium, Article VII of the VDAC Program provides for an "optional intermediate reapportionment of pool shares" and for a "final reapportionment of pool shares" for VDACs receiving assignments in a given policy year. All policy years, including those for which an intermediate reapportionment was completed, are subject to a final reapportionment of pool shares to be made within three years of the beginning of the policy year.

IMPACT

In implementing the Final Reapportionment for policy year 2020, individual VDACS have been given 2020 pool participation ratios to correct for over or under assignment of premiums. In 2020, the VDACS as a whole were slightly under assigned, meaning the servicing carriers were over assigned. To correct for the under assignment to the VDACS and the over assignment of premium to the servicing carriers, the VDACS will be given participation ratios, the total of which is 0.0764252589. The non-VDAC members' participation ratios will be adjusted by a factor of 0.9235747411 (or $1 - 0.0764252589$) to precisely offset the assignment of participation ratios to VDACS, keeping the pool perfectly in balance.

NCCI is including the Final 2020 VDAC Reapportionment with its fourth quarter 2022 pool distribution:

- Cumulative policy year 2020 pool cash distributions through the third quarter of 2022 were \$38,062,277, meaning that policy year 2020, to date, has a positive cash flow. Because the 2020 VDACS were collectively under assigned in a year that currently has positive results, there will be a net distribution to the VDACS for the policy year 2020 Pool.
- The adjustments made to the non-VDAC carriers will also be included in the fourth quarter 2022 distribution, based on each non-VDAC member's adjusted 2020 pool participation ratios.

From this time forward, the 2020 VDAC carriers and their finalized participation ratios will be part of the automated quarterly process by which NCCI settles each pool member's share of the 2020 policy year cash flows.

If you have any questions, please contact me at 617-646-7544 or at ccronin@wcribma.org.

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